

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7424-PH

Loan Agreement

(First Development Policy Loan)

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 23, 2007

Public Disclosure Authorized

LOAN NUMBER 7424 -PH

LOAN AGREEMENT

Agreement dated January 23, 2007, entered into between REPUBLIC OF THE PHILIPPINES (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS (A) the Bank has received from the Borrower a letter, dated November 16, 2006: (i) describing its macro-economic policy framework and a program of actions, objectives, and policies designed to promote growth and achieve sustainable reductions in poverty (the Program), which Program consists of actions that have already been taken as described in Section 1 of Schedule 1 to this Agreement (the First Phase of the Program), and actions and policies that the Borrower intends to take and adopt in the near future; (ii) declaring the Borrower’s commitment to the objectives of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the First Phase of the Program to provide such assistance to the Borrower by making the loan provided for in Article II of this Agreement (the Loan) as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two hundred fifty million Dollars (\$250,000,000), as such amount may be converted from time to time through a

Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement (“Loan”).

- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the First Phase of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

- 2.09. Without limitation upon the provisions of paragraph (a) of Section 2.08 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.10. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III

Particular Covenant

- 3.01. The Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the First Phase of the Program, or any action taken specified in Schedule 1 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following, prior to the drawdown in full of the Loan by the Borrower:
- (a) the Borrower's macro-economic policy framework has become inconsistent with the objectives of the First Phase of the Program; and
 - (b) an action has been taken or a policy has been adopted to reverse any action or policy under the Program, including any action listed in Schedule 1 to this Agreement, in a manner that would, in the opinion of the Bank, materially and adversely affect the achievement of the objectives of the First Phase of the Program.

ARTICLE V —EFFECTIVENESS

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Secretary of Department of Finance.

6.02. The Borrower's Address is:

Department of Finance
Department of Finance Building
Bangko Sentral Complex
Roxas Blvd.
Manila, Philippines

Cable address:	Facsimile:
SECFIN	(63-2) 526-9990
Manila	(63-2) 523-9216

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423(MCI) or	1-202-477-6391
Washington, D.C.	64145(MCI)	

AGREED at Manila, Republic of the Philippines, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By: /s/ Margarito B. Teves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Actions under the First Phase of the Program; Availability of Loan Proceeds

Section I. Actions under the First Phase of the Program

The actions taken by the Borrower under the First Phase of the Program include the following:

1. The Borrower has reduced its consolidated public sector deficit from 4.8 percent of gross domestic product (GDP) in 2004 to 1.8 percent of GDP in 2005.
2. The Borrower has reduced the ratio of the national government deficit to GDP from 3.8 percent in 2004 to 2.7 percent in 2005 and reduced the level of national government deficit to 50.4 billion Pesos as of September 2006.
3. The Borrower has broadened the VAT coverage by removing exemptions for petroleum products, electric power, and legal and medical services.
4. The Borrower has increased the VAT rate from 10 percent to 12 percent.
5. The Borrower has increased its tax revenue by 0.3 percent of GDP in 2005 and further increased its tax revenue by 24 percent during the first nine months of 2006.
6. The Borrower has established a high-level tax reform administration group in the BIR to implement its tax administration and reform agenda.
7. The Borrower has increased NPC's effective average generation tariff contributing to a reduction in NPC's deficit by 1.1 percent of GDP in 2005.
8. The Borrower, through ERC, has published, for public consultation, guidelines for universal charge for stranded costs and stranded debt.
9. The Borrower has increased the number of notices with contract awards posted on the Philippines government electronic procurement system (PhilGEPS) from 3128 in 2004 to 8987 in the first nine months in 2006; and increased the amount of contract awards posted on PhilGEPS from 4.45 billion Pesos in 2004 to 21.2 billion Pesos in the first nine months in 2006.
10. The Borrower has commenced the commercial operation of the Wholesale Electricity Spot Market (WESM) in Luzon.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section.
- B. Allocation of Loan Amounts.** The Loan shall be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Dollars)
Single Tranche	250,000,000
TOTAL AMOUNT	250,000,000

- C. Deposits of Loan Amount.** Except as the Bank may otherwise agree:
1. The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain a deposit account in Dollars in Bangko Sentral ng Pilipinas (Designated Bank Account) on terms and conditions satisfactory to the Bank.
 2. All withdrawals from the Loan Account shall be deposited by the Bank into the Designated Bank Account.
 3. The Borrower shall ensure that upon deposit of the Loan amount into the Designated Bank Account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- D. Audit.** Upon the Bank's request, the Borrower shall:
1. have the Designated Bank Account audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;
 2. furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request; and
 3. furnish to the Bank such other information concerning the Designated Bank Account and their audit as the Bank shall reasonably request.

E. Excluded Expenditures.

The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure as listed in paragraph (6) of Section I of the Annex to this Agreement, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is March 31, 2007.

SCHEDULE 2

Amortization Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; and by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 2 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15 Beginning May 15, 2015 through May 15, 2026	4.17%
On November 15, 2026	4.09%

2. Notwithstanding the provisions of paragraphs 1 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

3. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Bangko Sentral ng Pilipinas” means the central bank of the Republic of the Philippines, and any successor thereto.
2. “BIR” means the Borrower’s Bureau of Internal Revenue and any successor thereto.
3. “Designated Bank Account” means the account referred to in Part C.1 of Section II of Schedule 1 to this Agreement.
4. “EPIRA” means the Borrower’s Electric Power Industry Reform Act of 2001 and any amendments thereto.
5. “ERC” means the Energy Regulatory Commission, established pursuant to Section 38 of EPIRA as an independent power regulatory body, and any successor thereto.
6. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials

667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation.
7. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
8. "NPC" means the Borrower's National Power Corporation and any successor thereto.

9. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

(c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. Program Monitoring and Evaluation

(c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the First Phase of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

The “Program” means the First Phase of the Program referred to in the Loan Agreement in support of which the Loan is made. All references to Project throughout these General Conditions are deemed to be references to “Program”.